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ABSTRACT

This document contains the semiannual report on the activities of the U.S. Department of Education's Office of Inspector General (OIG) for the 6-month period ending March 31, 1997. During this time the OIG continued to fulfill its statutory mandate through a carefully designed program of audits and reviews intended to help Education Department managers administer their programs and carry out their oversight responsibilities more efficiently, more effectively, and more economically. The report contains a copy of Public Law 95-452 reporting requirements and three abstracts that describe: (1) significant audits and audit-related activities; (2) significant prosecutive actions resulting from OIG's investigations; and (3) initiatives conducted in response to Congressional request. Statistical tables and a glossary of abbreviations are included. (LMI)

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ED 409 612

U.S. Department of Education

Office of Inspector General

Semiannual Report to Congress

No. 34

October 1, 1996 – March 31, 1997

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U.S. Department of Education

Office of Inspector General

Semiannual Report to Congress

No. 34

October 1, 1996 - March 31, 1997

UNITED STATES DEPARTMENT OF EDUCATION

OFFICE OF INSPECTOR GENERAL

THE INSPECTOR GENERAL

April 30, 1997

Honorable Richard W. Riley
Secretary of Education
Washington, DC 20202

Dear Mr. Secretary:

I am pleased to submit this semiannual report on the activities of the Department's Office of Inspector General (OIG) for the six-month period ending March 31, 1997. Submission of this report is in accordance with section 5 of the Inspector General Act of 1978 (Public Law 95-452, as amended). The act requires that you transmit this report, along with any comments you may wish to make, to the appropriate congressional committees and subcommittees.

This period, the OIG continued to fulfill its statutory mandate through a carefully designed program of audits and reviews intended to help Education Department (ED) managers administer their programs and carry out their oversight responsibilities more efficiently, more effectively and more economically. Our efforts have produced reports and prosecutive actions that have brought important issues to the attention of ED managers and recommended ways to resolve them or to prevent their recurrence.

I look forward to continuing to work with you and Department managers as we seek to ensure the efficiency, effectiveness and integrity of Education Department programs and operations.

Sincerely,

Thomas R. Bloom

400 INDEPENDENCE AVE., S.W. WASHINGTON, D.C. 20202-1510

Our mission is to ensure equal access to education and to promote educational excellence throughout the Nation.

Inspector General's Message to Congress

The Office of Inspector General (OIG) has continued to meet the challenge to remain effective by finding more innovative ways to deploy our resources and conduct our audit, investigation and management review efforts. One key shift in emphasis and approach has been to focus our efforts on program and operations issues and systemic problems that are larger in scope than the traditional single-entity focus. This front-end work will lead to more effective programs with built-in controls and self-enforcing mechanisms to prevent fraud, waste and abuse by all participants, rather than rely on "after-the-fact" detection at those few participants we have the opportunity to review.

These carefully focused, yet at the same time more broadly encompassing efforts have already begun to bear fruit. Audits issued during the reporting period have, for example, identified problems in controls over the student eligibility process, and recommended improvements which we believe could greatly reduce Pell Grant overawards; and found that accrediting agencies could strengthen their role as gatekeepers of the student financial assistance programs if their on-site monitoring of member institutions was improved. In the investigative arena, we are focusing about eighty-five percent of our efforts on complex investigations of institutions, including postsecondary schools, lenders, guaranty agencies and servicers. Such efforts are more complex and more high-profile than investigations of individual student recipients. They also tend to generate more publicity, which in turn helps deter fraud. Through management reviews, we are focusing on identifying administrative operations' work processes in need of improvement and generating possible solutions.

In the continuing pursuit of programmatic and operational economy, efficiency and effectiveness, the OIG is but one link, if a critical one, in a chain that includes Education Department (ED) managers, the Congress, and participants in ED programs. We look forward to continuing to work with the Congress and the Department to foster ever greater financial and systemic improvements in federally funded education programs.

Thomas R. Bloom

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Executive Summary:

Significant Activities and Accomplishments

This period, the Office of Inspector General (OIG) continued to meet its responsibilities by conducting audits and reviews that add value by recommending improvements to Education Department (ED) programs and operations. We also provided advice and assistance to ED managers which we believe will help them in administering their programs and in carrying out their oversight responsibilities. Highlights of our efforts follow.

POSTSECONDARY EDUCATION

We have continued our efforts to assess system controls to assure that only eligible students obtain student financial assistance and to evaluate management controls. Among our audit efforts in the postsecondary education arena were an audit that identified $109 million of overawarded Pell grants, a study of the impact of "ability-to-benefit" students on student loan-default and graduation rates, and a series of audits of schools participating in the Direct Loan program. Our investigative efforts have continued to identity individuals, including institutional officials, who have perpetrated a variety of schemes enabling them to fraudulently obtain student financial assistance (SFA) funds. Highlights of these efforts follow.

IRS/VA match identifies $109 million in Pell overawards

This period we issued an audit report which disclosed that approximately $109 million in Pell grants had been overawarded because students failed to report or underreported their income. We recommended that the Department be permitted to verify with the Internal Revenue Service (IRS) the income reported by students on the Free Application for Student Aid (FAFSA) and verify the reported veterans status with the Veterans Administration. These two elements are critical in calculating the expected family contribution needed to compute and award student aid.

Based upon our match with IRS returns of FAFSAs for over two million students who were awarded Pell grants, we found that for award year 1995-96, at least 102,000 students were overawarded approximately $109 million in Pell grants because they failed to report or underreported their income. In addition, we found that 1,200 Pell recipients falsely claimed to be veterans, resulting in $1.9 million in Pell overawards (see Abstract 1, *"Significant Audits and Audit-Related Activities"*).

Enrollment of ATB students

We completed a study on the impact which the enrollment of ability-to-benefit (ATB) students has on the student loan-default and graduation rates for a sample of proprietary and vocational schools. We found that the default rate for students attending schools that admit ATB students was twice that of students who attended schools that did not admit ATB students. In addition, the student-loan default rate increased significantly once the percentage of ATB students exceeded 20 percent of enrollment. The graduation rate for ATB students, meanwhile, was only 53 percent, compared with 69 percent for non-ATB students.

Based on the data obtained from our study, we concluded that schools that admit ATB students placed SFA funds at a higher risk than schools that did not admit ATB students. We

defined risk as the likelihood that a student will drop out before graduation and/or default on an SFA loan.

We suggested that the Congress and the Department consider statutory changes to further reduce the percentage, or eliminate ATB students from a school's enrollment count for purposes of participation in SFA programs. We also suggested other alternatives to safeguard the SFA funds if the ATB percentages remain constant, such as limiting the amount of SFA funds given to schools that admit high percentages of ATB students. (See Abstract 1, *"Significant Audits and Audit-Related Activities".*)

Direct Loan school audits

This period we completed 14 Direct Loan program school reviews as part of our National Direct Loan Schools Audit. We issued individual reports on each school identifying issues such as student status reporting deficiencies, problems with accurate loan records and reconciliation problems. Our summary report will be issued in the next reporting period.

Other SFA-entity audits

Our audits found that guaranty agencies improperly retained or had not refunded over $6 million relating to overcharges to the Federal Family Education Loan program (FFELP) for operational costs of state programs, excess collection costs as a result of federal consolidation loan payoffs, and unpaid advances due the Department. In addition, auditors found over $11 million in questioned and unsupported costs relating to lack of compliance with applicable federal requirements for administering SFA program funds.

We recommended that these amounts be recovered or returned to the program for use in furthering the Title IV programs. These audits are being resolved by the Department (see Abstract 1, *"Significant Audits and Audit-Related Activities"*).

Investigative efforts

We are now focusing about eighty-five percent of our investigative efforts on complex investigations, mainly involving institutions, including postsecondary schools, lenders, guaranty agencies and servicers. We are also continuing to devote some resources to investigating the most egregious allegations involving individuals who have engaged in complex schemes to defraud the SFA programs.

Embezzlement of SFA funds by school officials

OIG investigations have developed evidence that has led to the indictment of proprietary-school owners and officials who used their positions to defraud the Department's SFA programs. This period, a federal grand jury returned a 15-count indictment against the owner of Revell Training Center, Chicago and Melrose Park, Illinois, and the center's operations manager, alleging a scheme to defraud the Department of Education and banks of approximately $936,000. Investigators found evidence that the two officials caused student loan checks to be issued for ineligible students, retained and negotiated the checks, and used the money for improper purposes.

In another case, the accounting manager and vice president for business affairs at Ogalala Lakota College, Rapid City, South Dakota, was charged, along with four other individuals, in a 125-count indictment after investigators found evidence that a total of $2.6 million dollars in federal funds had been embezzled from the school.

False claims of medical-school attendance

In the last several years, OIG investigations have resulted in the federal prosecution of individuals who defrauded the Federal Family Education Loan Program (FFELP) by claiming to have attended foreign medical schools. In the Eastern District of New York, one in-

dividual was found guilty of filing 27 falsified FFELP applications using 14 identities for claimed attendance at medical schools in the Philippines (*Semiannual Report No. 29*, page 27; and *No. 30*, page 35). In another case, an individual pled guilty in the Southern District of New York to fraud in connection with the submission of FFELP applications for claimed attendance at various Caribbean medical schools. This individual applied for approximately $1 million in loan funds and actually received about $450,000 *(Semiannual Report No. 30*, pages 31-2; and *No. 31*, page 23). In these cases, the subjects used various guaranty agencies and made multiple false statements regarding their identities (i.e., names and Social Security numbers), prior student loan indebtedness, and foreign-school enrollment status.

We are continuing our efforts to identify and investigate FFELP borrowers who have received funds by falsely claiming foreign school enrollment, and we have initiated a number of investigations targeting suspected individuals. Our efforts are concentrated on FFELP activity at foreign medical schools, since we believe this is a high-risk area and there is a potential for substantial loss in this area. More important, in the near future, we anticipate providing the Department with our recommendations for corrective actions with respect to the abuses identified by our investigations.

For a look at some of the most significant OIG investigative cases of the reporting period, see Appendix 3, *"Significant Prosecutive Actions Resulting from OIG Investigations."*

DEPARTMENTAL OPERATIONS

Our efforts during the period to assist ED managers in assuring the efficiency and effectiveness of Department operations and programs were wide-ranging and significant in impact.

Financial statement audits

The Government Management Reform Act (GMRA) mandates the annual financial-statement audit requirement to cover the operations of the entire agency, beginning with FY 1996. Education elected to produce financial statements for FY 1995 at the Department level, one year ahead of the implementation date set by the GMRA.

Audit of FY 1995 financial statements

As reported in our previous *Semiannual Report* (No. 33, page 4), we contracted with an independent public accounting firm to conduct the audit of the consolidated financial statements. The independent accountants were unable to express an opinion on the FY 1995 consolidated financial statements, primarily because certain amounts related to the FFELP could not be supported by sufficient and reliable accounting information and because certain differences between reported amounts and underlying accounting records could not be adequately explained. The audit revealed new material weaknesses in internal controls in the areas of FFELP oversight of guaranty agencies and lenders, and cash reconciliations.

Corrective action plan implemented

Although management believes the FY 1995-reported FFELP liabilities for loan guarantees are reasonable, officials agreed with the need to further improve FFELP data. Management is working with the guaranty agency community and its independent accountants to obtain reliable data from guaranty agencies for use in estimating the FY 1996 FFELP liabilities for loan guarantees.

Management's goal is to have sufficient reliable data by May 1997 to support an opinion on the FY 1996 financial statements in August 1997. The audit of the FY 1996 financial statements is in process, with an anticipated reporting date of August 1997.

EDCAPS system security

This period, we provided ED's Central Automated Processing System (EDCAPS) development team with an independent assessment of security over its UNIX operating system and Oracle database management system. We provided the team with recommendations that should aid in the development of the EDCAPS processing system and mitigate the security exposures we identified (see Abstract 1, *"Significant Audits and Audit-Related Activities"*).

Government Performance and Results Act (GPRA)

The Department's strategic plan, a working document, was completed in 1994 and the OIG was involved in developing that plan. We also participated on a Department team that reviewed each office's strategic plan. The Department is currently revising its strategic plan, which will be completed later this fiscal year.

The Department has completed draft performance measures for 17 programs and has submitted those draft plans to Congress for consultation. We plan to review ED's implementation of GPRA, which will include review of program performance measures and evaluation of the data-collection and reporting systems and data validity.

Management reviews

As noted in our previous semiannual report (*Semiannual Report No. 33*, page 4), we have begun working in partnership with ED managers, conducting management reviews aimed at identifying opportunities to improve work processes and to correct systemic problems. To date, our work with the Office of Management and the Office of the Chief Information Officer has resulted in actions to improve telecommunications services, motor-pool operations, computer-equipment acquisitions and inventories, and property-pass procedures.

REAUTHORIZATION

Reauthorization of the Higher Education Act of 1998

This period, we initiated a number of reviews to support OIG proposals for the reauthorization of the Higher Education Act of 1998. Our proposals will be sent to the Department and appropriate congressional committees to assist in the reauthorization hearings. We also participated in work groups with the Office of Postsecondary Education to discuss areas in need of legislative attention.

Reauthorization of the Elementary and Secondary Education Act

We initiated a series of audits and reviews this period designed to assist ED managers and Congress in the reauthorization of the Elementary and Secondary Education Act (ESEA) in 1999. Areas covered in our audits and reviews include Bilingual Education, Schoolwide Programs, Safe and Drug-Free Schools, and the Title XIV flexibility provisions (e.g., consolidated applications, consolidated administrative funds, waivers, etc.)

Reauthorization of the Rehabilitation Act

This period, the OIG continued work on a series of audits designed to assist the Department and Congress in the upcoming reauthorization of the Rehabilitation Act. During the next semiannual period, we plan to issue reports covering factors that contributed to one state's high rate of successful case closures, and the reasonableness of the allocation formula. As part of our work on reauthorization, we will be issuing a composite report summarizing the results of our work.

CONGRESSIONAL TESTIMONY

Department of Education management and programmatic issues

The Inspector General testified this period before the House Subcommittee on Human Resources, Committee on Government Reform and Oversight, about the high-risk areas facing the Department. Focusing on the SFA programs, the Inspector General told the subcommittee that one of the most significant problems facing the Department was the lack of adequate management information and delivery systems. The systems are not integrated, do not share a common systems architecture, and do not provide the timely, accurate and complete data needed to manage effectively the SFA programs and a total grant and loan portfolio of over $120 billion.

The Inspector General further told the subcommittee that problems in the SFA programs have stemmed from the basic structural design of the programs and the lack of specificity in the authorizing statute; poor design and operations of the delivery systems; and inadequate gatekeeping, monitoring and oversight of program participants. The Inspector General also stressed the need for measurable performance standards.

Reauthorization of the Individuals with Disabilities Education Act

At the request of the House Subcommittee on Early Childhood, Youth and Families, Committee on Education and the Workforce, the Inspector General provided testimony regarding our audit of the funding formula for special education. During the hearing, the Inspector General stressed OIG's recommendation to change the current use of child counts for allocating federal funds to states under the Individuals with Disabilities Education Act, Part B, Section 611 to a system based on objective data—namely, population-weighted for poverty levels. It is our contention that this is a fairer, simpler and less burdensome method of allocating special education funds.

For more detailed information on these testimonies, see Abstract 3, *"Congressional Testimony."*

AUDIT QUALITY INITIATIVES

Our audit quality efforts this period were designed both to improve the quality of audits of ED programs and to improve education programs and student performance through better use of audits, monitoring and technical assistance. The results of our efforts are highlighted below and presented in greater detail in Abstract 1, *"Significant Audits and Audit-Related Activities."*

Cooperative Audit Resolution and Oversight Initiative

As reported in previous *Semiannual Reports*, we have been working with an intradepartmental team on a wide-ranging project known as the Cooperative Audit Resolution and Oversight Initiative, or CAROI. Other offices participating in the CAROI initiative include the Office of Elementary and Secondary Education, the Office of Vocational and Adult Education, the Office of the General Counsel, and the Office of the Chief Financial Officer.

CAROI team accomplishments

The CAROI team met with officials from state and local education agencies to discuss administrative issues and questions regarding federal funds and flexibility under IASA. The CAROI team and ED program officials are compiling the questions and answers from these discussions for national distribution.

The CAROI team was also involved in the Department's Data Coordination group. The Data Coordination group is considering more effective and efficient approaches to data collection, coordination and usage. For additional information on the CAROI team's activities and accomplishments, see Abstract 1, *"Significant Audits and Audit-Related Activities"*.

Audit quality and publications and projects

We issued two audit guides during the reporting period on attestation engagements applicable to FFELP lenders and third-party servicers, and began an audit quality project for work performed for proprietary schools by certified public accountants (CPAs).

Compliance Audits (Attestation Engagements) for Lenders and Lender Servicers Participating in the FFELP

The guide, which superseded the March 1995 lender audit guide, was issued in December 1996. It is effective immediately for lender servicers and is effective for lenders' fiscal years ending on or after December 31, 1996. This guide must be used by all lenders or servicers that participate in or administer any aspect of the FFELP, with two exceptions:

1) lenders or servicers that may be covered under the Single Audit Act of 1984, the Single Audit Act Amendments of 1996, and Office of Management and Budget (OMB) Circular A-128, "Audits of State and Local Governments"; and

2) lenders or servicers satisfying the audit requirement with an audit in accordance with OMB Circular A-133, "Audits of Institutions of Higher Education and Other Nonprofit Institutions."

Agreed-Upon Procedures Guide (Attestation Engagement) Exceptional Performance Status for FFELP at Participating Lenders and Servicers

This guide, issued in February 1997, is to be used by the practitioner to perform agreed-upon procedures relating to management's assertion about its compliance performance percentage with respect to converting loans to repayment, collecting delinquent loans, and requirements for timely claim-filing relating to the FFELP.

Audit quality project underway

This period we also initiated an audit-quality project focusing on the work of CPAs who audit proprietary schools. The project involves reviewing the working papers of CPAs who perform a significant number of these audits to determine if the work completed meets the requirements of *Government Auditing Standards, Statements on Standards for Attestation Engagements No. 3*, and the June 1995 *SFA Audit Guide*. We expect to report the results of this project in the next reporting period.

P.L. 95-452 REPORTING REQUIREMENTS

SECTIONS 5(a)(1) and 5(a)(2) Significant Problems, Abuses and Deficiencies

- Significant Audits and Audit-related Activities 8
- Significant Prosecutive Actions Resulting from OIG Investigations 21

SECTION 5(a)(3) Recommendations Described in Previous *Semiannual Reports* on Which Corrective Action Has Not Been Completed 34

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SECTIONS 5(a)(5) and 6(b)(2) Summary of Instances Where Information Was Refused or Not Provided*

SECTION 5(a)(6) Listing of Audit Reports

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- Significant Audits and Audit-related Activities 8

SECTION 5(a)(8) Audit Reports Containing Questioned Costs

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SECTION 5(a)(9) Audit Reports Containing Recommendations That Funds Be Put to Better Use

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SECTION 5(a)(10) Summary of Unresolved Audit Reports Issued Prior to the Beginning of the Reporting Period

- Unresolved Reports Issued Prior to April 1, 1996 40

SECTION 5(a)(11) Significant Revised Management Decisions*

SECTION 5(a)(12) Significant Management Decisions with Which OIG Disagreed*

*We have no instances to report.

Abstract 1

SIGNIFICANT AUDITS AND AUDIT-RELATED ACTIVITIES

(October 1, 1996 – March 31, 1997)

NOTE: The amounts reported by auditors for the reports described below are subject to further review and final determination by Department officials.

★ Student Financial Assistance Programs ★

Accuracy of Student Aid Awards Can Be Improved by Obtaining Income Data from the Internal Revenue Service

ACN 11-50001 January 29, 1997

Our review found that, for award year 1995-96, at least 102,000 students were overawarded approximately $109 million in federal Pell grants because they either failed to report or underreported their income on their student aid applications. Although ED requires institutions to verify key eligibility information reported by selected students, the process cannot detect students who intentionally underreport their income and provide false documentation.

We also found that almost 1,200 students improved their Pell Grant eligibility by falsely claiming to be veterans, thereby receiving over $1.9 million in Pell grants which they were not entitled to receive.

We recommended that the Office of Postsecondary Education (OPE) verify applicant-reported income against Internal Revenue Service computer records and initiate a data matching agreement with the Department of Veterans Affairs to verify the veteran status of individuals who claim to be veterans.

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Impact of Ability-to-Benefit Provision on Student Loan Default and Graduation Rates

09-53002 December 5, 1996

We issued a memorandum to the Assistant Secretary for Postsecondary Education transmitting information derived from our analysis of loan default rates and graduation rates for students who enrolled in selected proprietary schools under the ability-to-benefit (ATB) provision. Our analysis showed that the loan default rate for students who attended ATB schools was twice that of students who attended non-ATB schools, and that the rate jumped once schools began admitting ATB students. We also found that students with high school credentials who attended ATB schools had a loan default rate that was 75% higher than the rate for students with high school credentials who attended non-ATB schools.

We offered several suggestions for the Department's consideration to address the issues identified in our report.

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Review of Accrediting Agencies' Monitoring of Member Institutions

ACN 06-50001 February 14, 1997

Our review found that accrediting agencies could strengthen their role as gatekeepers of the student financial assistance programs if their on-site monitoring of member institutions was improved. We found that on-site visits by some of the six agencies reviewed were not always effective because they were infrequent, of short duration, and did not always disclose existing problems at institutions.

We recommended that the Department provide additional guidance to accrediting agencies to improve the effectiveness of their on-site visits, and that more frequent and extensive on-site visits be performed at high-risk institutions. We also recommended that the Department develop procedures to ensure that accrediting agencies are notified of serious deficiencies disclosed in program reviews, audits, and other oversight activities.

The Department concurred with our recommendations, although it did not always agree with our conclusions. The Department's response identified actions already taken to address the recommendations, as well as additional actions planned.

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The California Student Aid Commission Should Return About $5 Million to Guaranty Loan Reserve Fund That It Overcharged

ACN 09-60003 December 6, 1996

Our review found that the California Student Aid Commission (CSAC) had not corrected past overcharges to the FFEL program that resulted in improper disbursements from the Guaranty Loan Reserve Fund. Information developed through CSAC's 1995 workload study disclosed that CSAC had significantly overcharged the Guaranty Loan Reserve Fund for operational costs that benefited the CAL-Grant and other state programs. We estimate that overcharges were about $2.7 million in fiscal year 1994-95 and about $2.3 million in fiscal year 1993-94.

We recommended that OPE require CSAC to reimburse the Guaranty Loan Reserve Fund for these funds. CSAC officials concurred with our finding and agreed to reimburse the Guaranty Loan Reserve Fund for the overcharges.

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Review of Selected Aspects of the Kentucky Higher Education Assistance Authority's Administration of The Federal Family Education Loan Program

ACN 04-60147 February 18, 1997

The audit disclosed that between June 1993 and October 1995, the Kentucky Higher Education Assistance Authority (KHEAA) reported to ED payoffs from Federal Consolidated Loans (FCLs) as collections from borrowers. This reporting method resulted in KHEAA receiving 30 or 27 percent of the payoffs, which is more than the maximum 18.5 percent allowed for collection costs.

In November 1995, KHEAA started properly reporting the FCL payoffs. However, collection costs were not assessed on all loans and KHEAA retained the full 18.5 percent on these loans. As a result, KHEAA received $1,263,251 in excess post-default collection costs to which it was not entitled. We recommended that OPE instruct KHEAA to:

- refund $1,263,251 of excess collection costs retained as a result of FCL payoffs;

- assess collection costs of up to 18.5 percent of loan principal and accrued interest on all defaulted loan accounts prior to certifying a consolidation payoff amount; and
- report all assessed collection costs on Attachment A of ED Form 1189, "Suggested Format for Reporting Defaulted Consolidation Loan Payoffs."

KHEAA officials disagreed with the finding because they believe that the report is based on a misreading of the Higher Education Act and regulations.

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Close-out Audit of the Delaware Higher Education Loan Program for the Period July 1, 1996 thru September 30, 1996

ACN 03-60022 February 28, 1997

Our review found that the Delaware Higher Education Commission/Delaware Higher Education Loan Program (DHEC/DHELP) had not repaid $304,415 in federal advances that were to have been repaid in fiscal years 1988 and 1989. We recommended that ED ensure that:

- all receivables and payables are properly recorded prior to the transfer of the reserve fund;
- arrangements have been made to repay the $304,415 in federal advances due to ED; and
- arrangements have been made to repay $139,273 which DHEC/DHELP has agreed to repay as a result of a prior audit.

We also recommended that ED ensure that :

- furniture and equipment purchased mostly with federal funds at a cost of $32,479 is accounted for, or disposed of in a manner acceptable to ED; and
- a final accounting is made for the $200,000 which DHEC/DHELP is being allowed to retain for final closing costs.

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Roxbury Community College Disbursed $2.2 Million to Students Enrolled in an Ineligible English as a Second Language Program

ACN 01-50091 October 29, 1996

Our audit disclosed that Roxbury Community College, Roxbury Crossing, Massachusetts, improperly disbursed $2.2 million in SFA funds to students attending an ineligible English as a second language (ESL) program during the period July 1, 1993 through June 30, 1995. Roxbury classified these students as ESL majors on school transcripts but contends the students were liberal-arts majors. Evidence gathered clearly demonstrates that the majority of students enrolled for the sole purpose of taking ESL courses.

We recommended that Roxbury repay the $2.2 million and identify all Title IV funds disbursed to ineligible students for the 1992/93, 1994/95 (because the audit scope does not include new students enrolled in 1994/95) and 1995/96 award years.

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Close-out Audit of the Title IV Student Financial Assistance Programs Administered by the Chicago Institute of Technology

ACN 05-40001 October 8, 1996

Our close-out audit of Chicago Institute of Technology (CIT), Chicago, Illinois, was initiated to determine whether CIT was in compliance with applicable laws and regulations governing the operation of the SFA programs. Our purpose was also to determine whether CIT was entitled to the advances and student loan proceeds it had received and the reimbursement for claims it submitted for the period July 1, 1988 through June 30, 1991.

Our review determined that CIT did not administer the SFA programs according to applicable laws and regulations, and identified about $10.1 million of unearned SFA funds. We found that CIT disbursed funds on behalf of students who did not attend the school or were otherwise not eligible for assistance. Accordingly, CIT is not entitled to receive payment for $1,320,054 in SFA reimbursement claims that it submitted to the Department of Education.

We recommended that ED seek to recover the unearned balance of $8,759,385 ($10,079,439 less $1,320,05) received by CIT.

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Audit of Selected Aspects of the Title IV Programs Administered by Houston Community College System During July 1, 1992 through June 30, 1995

ACN 06-50013 November 25, 1996

Our audit at Houston Community College System, Houston, Texas, disclosed deficiencies in the college's administration of Title IV funds for students enrolled in its aviation maintenance technology program. We found that the college awarded subsidized Stafford loans based on an academic year of 900 clock hours although it had defined the program's academic year as 1,680 hours. In addition, some students were disbursed second-year loan proceeds even though they had not successfully completed their first academic year. As a result, about $210,000 in excess loan funds was disbursed to students enrolled during the period audited.

We also found that the college did not always properly compute or make *pro rata* refunds for students who withdrew during the period January 1, 1993 through June 30, 1995. As a result, the college improperly retained about $7,800 in SFA funds.

We recommended that the college:

- purchase from current loan holders the $210,000 in loan funds inappropriately disbursed to the students;
- reimburse ED for the interest and special allowances paid on the excess loan funds;
- consider a more centralized approach for the financial aid process whereby packaging and review are performed on an overall college basis rather than at the individual campuses;
- refund the $7,800 in SFA funds owed for those students who withdrew from the program prior to completing the course; and
- establish appropriate procedures to ensure that refunds are properly computed and paid in accordance with program regulations.

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Radcliffe College Needs Minor Improvements in its Administration of the Federal Direct Loan Program

ACN 01-60005 November 26, 1996

Our audit of Radcliffe College, Cambridge, Massachusetts, identified the following weaknesses:

- Some promissory notes had the wrong loan identification numbers.
- Some students studying abroad were incorrectly identified as having withdrawn.
- Access to the student data bases needed further restrictions.
- Written policies and procedures needed to be developed for the Direct Loan program.

The school has taken actions or has planned actions that generally should correct the cited conditions. However, the report recommends additional measures that Radcliffe should take to improve its administration of the Direct Loan program.

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Audit of the Direct Loan Program Administered by the Burdett School

ACN 01-60006 March 24, 1997

Our audit found that Burdett School, a second-year Direct Loan program participant located in Boston, Massachusetts, initially had some difficulties in complying with all program requirements. However, the school did demonstrate substantial progress during 1996 and was addressing most shortcomings. The audit noted that the school:

- input incorrect school code data on 36 promissory notes;
- did not return excess cash within three days nor report the cash draws on EDExpress in a timely fashion;
- did not report the correct disbursement dates to the servicer;
- needed to strengthen computer system controls;
- needed to develop written policies and procedures for the Direct Loan program;
- did not have a quality assurance program in place;
- did not properly process adjustments and cancellations, thus causing its Direct Loan cash balance to be overstated and the borrowers' accounts at the servicer to be misstated;
- had credit balances on its student accounts for longer than the 21 days allowed; and
- needed to follow up on reconciliation problems more expeditiously.

The school has taken or planned actions that generally should correct the cited conditions. However, the report recommends additional measures that Burdett should take to improve its administration of the program.

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Audit of the Direct Loan Program Administered by Fitchburg State College

ACN 01-60007 February 6, 1997

Our audit disclosed of Fitchburg State College (FSC)'s administration of the Direct Loan program identified some weaknesses related to:

- incorrect reporting of student status changes disbursement dates and adjustment/cancellation dates to the servicer;
- timely submission of refunds;
- lack of restriction to software access;
- lack of written policies and procedures; and
- need for the computer system to provide pertinent data on student accounts

Based on our observations, FSC encountered difficulties because its computer system was outdated. FSC agreed with some of our findings and has already taken action on many of our recommendations.

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Audit of the Direct Loan Program Administered by the Philadelphia College of Pharmacy and Science

ACN 03-60008 October 25, 1996

Our audit of the Philadelphia College of Pharmacy and Science's (PCPS), Philadelphia, Pennsylvania, administration of the Direct Loan program identified the following weaknesses.

- PCPS was not always correctly reporting student enrollment status. Of 12 students tested with a change in enrollment status, 2 had an enrollment status that differed from that on the servicer system.
- PCPS's records were not always consistent or accurate and did not always provide for a clear audit trail.
- PCPS did not have written policies or procedures for administering the Direct Loan program.

We recommended that PCPS:

- review its records and its internal Student Status Confirmation Report (SSCR) program specifications for extracting student data to ensure that correct enrollment status has been and will be reported for each student;
- review its records to determine whether any additional discrepancies exist among student loan balances and, if so, make the appropriate corrections;
- reconcile student account, loan origination and general ledger disbursement data; and
- develop written policies and procedures for administering the Direct Loan program.

PCPS concurred with our findings and recommendations and has provided a corrective action plan addressing each issue.

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Audit of the Direct Loan Program Administered by CHI Institute

ACN 03-60010 November 19, 1996

Our audit of the administration of the Direct Loan program by CHI Institute (CHI), Southampton, Pennsylvania, identified the following weaknesses.

- CHI did not always properly report student enrollment status changes. Of the 20 students tested with a change in enrollment status, 4 had an enrollment status that differed from that on the servicer system.
- CHI did not establish a system of quality assurance with regard to its administration of the Direct Loan program.
- CHI did not have written policies or procedures for administering the Direct Loan pro

We recommended that CHI:

- review its records and ensure correct enrollment status data has been reported for each student;
- provide for a program of quality assurance; and
- develop written policies and procedures for administering the Direct Loan program.

CHI concurred with our findings and recommendations and has provided a corrective action plan addressing each issue.

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Audit of the Direct Loan Program Administered by Kean College

ACN 03-60020 February 28, 1997

Our audit of Kean College's (Kean) administration of the Direct Loan program identified the following weaknesses.

- Kean was not always correctly reporting student enrollment status changes.
- Subsequent to the audit period, Kean maintained an excess cash balance.
- Kean was not always maintaining and reporting accurate student loan information.
- Kean was not always transmitting and submitting for reconciliation, loan disbursements and adjustments in a timely manner.

We recommended that Kean:

- review its records and ensure that correct enrollment status data has been reported for each student, and that staff involved in the Student Status Confirmation Report process are properly trained;
- ensure that corrections are made for errors disclosed, and reimburse the Department for costs incurred in making excess funds available to the school:
- review its records and immediately make any necessary corrections, and periodically reconcile its student account and loan origination data;
- report and submit promptly for reconciliation, all transactions to the Department's servicer; and
- improve its program for quality assurance to reduce inefficiencies in program administration.

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Audit of the Direct Loan Program Administered by University of Alabama—Birmingham

ACN 04-60150 January 24, 1997

The audit identified weaknesses related to the university's import of loan records from its mainframe system into EDExpress, and EDExpress data security.

The auditors recommended that OPE instruct the institution to:

- perform quarterly reconciliations of disbursement data of its mainframe and EDExpress to ensure the accuracy and completeness of loan data reported to the Loan Origination Center; and
- establish a new password for the EDExpress default user ID that would be known only to those individuals granted appropriate security clearance to access all functions of the software.

In its response, the institution concurred with the audit results and stated that it has implemented the recommendations to correct the weaknesses identified in the report.

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Earlham College—Richmond, Indiana Audit of Administration of the William D. Ford Federal Direct Loan Program

ACN 05-60013 October 29, 1996

Our audit found that records in the Direct Loan data bases maintained by Earlham College do not always agree with the records in the Direct Loan data base maintained by the Direct Loan servicer, Computer Data Systems, Inc., for students who withdraw. Earlham College does not maintain records to support specific student status changes it reported to the servicer.

We also found that Earlham College cannot ensure that it properly records program transactions and protects the Direct Loan data bases because administrative controls over the Direct Loan program are inadequate. As a result, Earlham College's accounting records and Direct Loan data bases include inaccurate information. In addition, the lack of adequate security controls could result in unauthorized access and/or tampering with the data bases.

We recommmended that OPE instruct Earlham College to:

- establish and implement notification procedures to ensure and document that it reports student status changes to the servicer accurately and timely; and
- strengthen administrative controls.

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Joliet Junior College—Joliet, Illinois Audit of Administration of the William D. Ford Federal Direct Loan Program

ACN 05-60018 January 10, 1997

Our review found that Joliet Junior College, Joliet, Illinois, generally administered the Direct Loan program and accounted for and expended Direct Loan funds in accordance with applicable program requirements. We did, however, identify weaknesses related to:

- reporting of student status changes;
- reconciliation of data bases;
- internal controls; and

- computer security.

We recommended that OPE instruct Joliet to:

- establish and implement procedures for notifying the Direct Loan servicer, Computer Data Systems, Inc., of student status changes;
- establish and implement procedures to ensure that reconciliations are completed in a timely manner;
- establish and implement adequate internal controls to ensure that all program transactions are correctly recorded in a timely manner; and
- develop, distribute and implement written computer security policies and procedures.

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Audit of the Direct Loan Program Administered by the Court Reporting Institute of Dallas

ACN 06-60009 January 21, 1997

We conducted an audit of the Court Reporting Institute of Dallas (CRID), Dallas, Texas, to determine whether it had administered the Direct Loan program in accordance with applicable program requirements, including the proper accounting for and expending of federal funds. We concluded that the school's policies and procedures generally provided an adequate level of assurance that it complied with program requirements.

We found three deficiencies which did not have a significant impact on the administration of the program.

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Audit of the Direct Loan Program Administered by the University of Texas Medical Branch—Galveston

ACN 06-60011 February 6, 1997

Our review disclosed that the University of Texas Medical Branch—Galveston (UTMB) generally complied with Direct Loan program requirements. We identified three minor deficiencies, as follows:

- The account that maintains UTMB's Direct Loan program funds did not include "Federal Funds" in its name, and UTMB had not notified the bank that this account contained federal funds. When we made UTMB aware of this issue during our visit, UTMB prepared a letter to the bank to make the bank aware that federal funds will be deposited into this account.
- Our review of 50 student loan files disclosed that the actual disbursement dates per the Loan Origination Records (LOR) and student accounts did not match for 48 of the 50 student loans tested. The disbursement dates provided to the servicer were one to four days earlier than the actual dates the funds were delivered to the students.
- Three reconciliations were not timely during 1995-96, one due to software problems at the servicer and two due to school delays. Because of problems with the Windows-based version of EDExpress and the installation by UTMB, no reconciliations have been done for 1996-97.

We recommended procedural changes to address the identified deficiencies.

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Topeka Technical College, Direct Loan Program Audit

ACN: 07-60008 March 28, 1997

Our audit of the administration of the Direct Loan program by Topeka Technical College (TTC), Topeka, Kansas, identified some weaknesses related to:

- the reconciliation process;
- discrepancies between EDExpress (the Department's Direct Loan software) and student accounts;
- lack of electronic student status confirmation reports;
- system controls; and
- timely submissions of refunds.

TTC concurred with all of the findings and recommendations cited in the report and stated that it has taken appropriate action to implement necessary changes to address the findings.

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Audit of the Direct Loan Program Administered by Academy of Art College, San Francisco, California

ACN 09-60006 December 9, 1996

We conducted an audit of the Academy of Art College, San Francisco, California, to determine whether it had administered the Direct Loan program in accordance with applicable program requirements, including the proper accounting for and expending of federal funds. Our substantive tests of the various areas reviewed did not identify any significant problems. However, we noted a weakness in the internal controls relative to the school's general security measures with regard to EDExpress software, data files and related equipment.

In its response to our draft report, the Academy detailed the specific actions the school has taken to correct the cited weakness in its system. The specific actions, as presented in the school's response, should correct the problems noted in our review.

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Audit of the Direct Loan Program Administered by Marymount University

ACN 17-60004 December 27, 1996

Our review at Marymount University, Arlington, Virginia, identified several audit issues related to Marymount's third-party servicer, Datatel's mainframe system *Colleague*, which generates and tracks loan data; and EdTech's PC-based system *FEEDS*, which transmits loan data and tracks status flags. We found that:

- communication between the two systems did not work as designed, resulting in the transmission of corrupted data to the Department's servicer;
- attempts to correct the data and reconcile with the Department's servicer were hampered by reports from *FEEDS* that contained insufficient information; and
- because of a change in procedure—from manual submittal of SSCR data to electronic submittal of the data—the registrar's office did not always input a status change date into *Colleague*, resulting in inaccurate dates in the SSCR and the disbursement of funds to students who were no longer in attendance. Fortunately, these

disbursements were subsequently corrected and accurate data was maintained, at times by manual intervention, in the student accounts office.

We recommended that the Department:

- continue to provide technical assistance to Marymount and its third-party servicers to ensure the integrity of Direct Loan data; and
- require Marymount to correct all inaccurate Direct Loan data reported by their third-party servicers.

★ Elementary, Secondary and Other Education Programs ★

The Foundation for Children with AIDS, Inc. Had Few Controls Over Allocating Costs to Federal Grants

ACN 01-60251 March 27, 1997

Our review found that the Foundation for Children with AIDS, Roxbury, Massachusetts, did not have an accounting system that accurately allocated salaries and wages to ED's grants. Because the Foundation inappropriately used budgeted figures to charge individual grants, we could not determine whether $429,027 in salaries was charged to the correct grants. Although the salary charged to grants equaled the total time worked, the Foundation's timesheets did not support the time worked on each individual grant.

Since the grants in question have been terminated, we determined that it would not be practical for us to establish harm and concluded that no further action is required at this time. However, in the future, before making awards to the Foundation, the Department should verify that the Foundation has in fact implemented an adequate accounting system to insure accurate allocation of costs to individual grants.

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Coordination and Collaboration Within the Office of Special Education and Rehabilitative Services to Better Serve Customers and Manage Programs

ACN 03-50201 March 27, 1997

We performed an audit to assess the efforts of the Office of Special Education and Rehabilitative Services (OSERS) toward coordination and collaboration among OSERS's three organizational components (the Office of Special Education Programs, the Rehabilitation Services Administration, and the National Institute for Disability and Rehabilitation Research); OSERS's organizational change initiatives; and OSERS's collection and use of data. We found that OSERS had made some organizational changes, and undertaken actions to foster coordination and collaboration and improved collection and use of data. However, we noted some remaining barriers to achieving coordination and collaboration, and actions that should be taken to improve the collection and use of data.

To address the barriers and further enhance OSERS's ability to achieve its goals, we recommended that OSERS:

- assess coordination and collaboration efforts in the performance evaluation systems for managers and staff;
- review periodically the decision to maintain three distinct components within OSERS;
- develop a plan to address the loss of resources in the regional offices of the Rehabilitative Services Administration;
- develop a strategy for addressing duplicative planning and research functions within OSERS; and
- develop a strategic information plan.

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Review of the Cooperative Agreement for the National Center for Adult Literacy Awarded to the University of Pennsylvania for the Period November 1, 1992 through March 31, 1996

ACN 03-60006 January 18, 1996

Our review found that the University of Pennsylvania:

- did not have a control system in effect to ensure adequate safeguards to prevent the theft of equipment and supplies purchased with federal funds; and
- failed to submit the annual financial status reports required within 90 days of the budget periods ending October 31, 1992, 1993 and 1994.

We recommended that the Department require the National Center for Adult Literacy to develop procedures to ensure that security systems protecting federal property are functional.

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Audit of the Talent Search Program at the Community and Economic Development Association of Cook County, Inc. in Chicago, Illinois

ACN 05-60005 November 1, 1996

Our review disclosed that the Community and Economic Development Association (CEDA) did not have adequate evidence to support that it provided services to the required number of participants, based on the grant funds expended, in the 1993/94 and 1994/95 grant years. We also found that records were not maintained for each participant to document the services provided, basis for eligibility and needs assessment, and that adequate staff were not available to ensure that approved grant program objectives were met.

We recommended that ED instruct CEDA to refund $130,840 to the Department; develop and implement policies and procedures to ensure that it maintains a file for each participant which adequately documents the services it provided, the basis for its determination of eligibility, and its needs assessment; and ensure that adequate staff are available to meet the program objectives.

★ Departmental Management ★

Security Review of EDCAPS' UNIX Operating System and Oracle Database Management System

ACN 11[illegible] March 31, 1997

As part of our continuing work to assist ED in its development of the Education Department Central Automated Processing System (EDCAPS), we conducted a security review of the UNIX operating system and Oracle database management system. The objective of the review was to provide the EDCAPS development team with an independent assessment of security over critical system processes. Detailed testing of system security tables identified a number of security exposures and limitations. We recommended system enhancements for each exposure that the EDCAPS team can use to improve system controls.

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Cooperative Audit Resolution and Oversight Initiative

As reported in previous *Semiannual Reports*, we have been working on an intra-departmental team on a wide-ranging project known as the Cooperative Audit Resolution and Oversight Initiative, or CAROI. The goal is to improve education programs and student performance at state and local levels through better use of audits, monitoring and technical assistance. During the next 12 months, CAROI will be concentrating on institutionalizing the process within the Department.

The following are the team's accomplishments during the reporting period.

#1: CREATE AND MAINTAIN DIALOGUE WITH STATES

The CAROI team met with officials from state and local education agencies (SEAs and LEAs) to discuss administrative issues and questions surrounding Title XIV flexibility provisions and schoolwides under under IASA. The CAROI team and ED program officers are compiling the questions and answers from these discussions for national distribution. Lack of guidance on these issues has caused some LEAs and SEAs to not use the flexibility provisions provided in the law because of concern about audit exceptions. This guidance will assist SEAs and LEAs in implementing the flexibility provisions. The guidance will also assist auditors in providing criteria when auditing an SEA's or LEA's use of the provisions.

The CAROI team made presentations at each of three regional Improving America's Schools Conferences, which are sponsored by the Department. The team also addressed the National Title I Conference, sponsored by the National Association of State Title I Directors, regarding the IASA compliance supplement issued last June, the time-distribution model developed as a result of the first Cooperative Resolution pilot with Florida. The team also presented and discussed a preliminary draft question-and-answer document on the Title XIV flexibility and schoolwides with Conference participants.

#2: WORK WITH STATES TO RESOLVE OPEN AUDITS OR AUDITS UNDER APPEAL

During this period, CAROI finished the second Cooperative Audit Resolution pilot with the State of Washington. An agreement between Washington and the Department was signed in early April. This agreement is unique because one agreement resolves issues from two years of audits involving three entities within the State of Washington. Because the Department has received a number of inquiries and requests from other states to be included in future cooperative resolutions, during the next 12 months, CAROI will be concentrating on institutionalizing the processes within the Department.

#3: IMPROVE THE SINGLE AUDIT PROCESS

This period CAROI began discussions with a state auditor on a pilot project under provisions of the Single Audit Amendments. The goal of the pilot project would be a comprehensive report on how federal programs are managed at the local level. At present, the Department receives little information from the single audits that are conducted at most LEAs. These audits would give federal program managers information on how federal programs operate at the local level.

#4: COORDINATE AUDITS, MONITORING, AND TECHNICAL ASSISTANCE

The CAROI team is working with the Department in its deliberations, planning of and participation on integrated reviews and other state program-monitoring efforts. CAROI members are working with program officials to ensure the link between audits, monitoring and technical assistance.

The CAROI team is also participating as a member of the Department's Data Coordination group, which is considering more effective and efficient approaches to data-collection coordination and usage. CAROI members are working to ensure that information on oversight activities is available to persons who need it to ensure the efficient and effective use of federal funds.

Abstract 2

SIGNIFICANT PROSECUTIVE ACTIONS RESULTING FROM OIG INVESTIGATIONS

(October 1, 1996 – March 31, 1997)

★ School Owners and Officials ★

National Theater of the Deaf

Chester, Connecticut

CHARLES ROPER, executive director

Charles Roper, former executive director of the National Theater of the Deaf, was charged and pled guilty in federal court to one count of misapplication of federal funds. The charge relates to Roper's conversion in 1993 and 1994 of approximately $105,000 in federal grant funds for his own personal use and the use of others.

The misuse of funds included improper expenditures in the form of cash advances and purchases of clothing, liquor, vacations and restaurant meals. Roper executed the scheme through the fraudulent use of the Theater's credit cards and bank accounts. The National Theater of the Deaf is a non-profit organization receiving funds from ED's Office of Special Education and Rehabilitative Services (i.e., Media and Captioning Services for Individuals with Disabilities) for the purpose of providing a theatrical experience for deaf audiences and for promoting an understanding of deafness.

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IADE American Schools

Los Angeles, California

SERGIO STOFENMACHER, owner and vice-president
KENNETH WILLIAMS, financial aid director

Sergio Stofenmacher, former owner of IADE American Schools, and Kenneth Williams, IADE's former corporate financial aid director, were indicted by a federal grand jury on 20 felony counts of conspiracy, embezzlement, money laundering, and making false statements to a federal agency, allegedly defrauding the Department of Education out of more than $1 million in Pell Grant funds. A joint investigation by ED/OIG and the Federal Bureau of Investigation (FBI) developed evidence that Stofenmacher and Williams conspired to operate a scheme to embezzle Pell grants for persons who never attended any classes, and then attempted to cover up the fact that the pair had illegally taken Pell grants for "phantom" (no-show) students.

As part of the alleged scheme, IADE reportedly purchased millions of dollars in advertising through some of Los Angeles's premier Spanish-speaking media outlets, encouraging Hispanics to attend IADE-sponsored orientation meetings or free citizenship classes where attendees were then encouraged to complete applications for student financial aid. IADE processed the applications and drew down a maximum first disbursement of Pell funds based on the applicants' anticipated enrollment. IADE failed to refund Pell grants when applicants cancelled their enrollment or failed to attend any classes. In order to take the second Pell Grant disbursement and preclude the appear-

ance that a refund was due, Stofenmacher and Williams allegedly caused IADE personnel to input false credit hours for the "phantom" students. In effect, this made it appear that the "phantom" students graduated when in fact they had never attended a single class. Stofenmacher allegedly deposited the Pell Grant checks for the "phantom" students into IADE's operating account and then improperly converted the Pell Grant funds to his own use and the use of his family. Stofenmacher fled to Argentina following the execution of a search warrant at the IADE corporate office in March of 1995 by the OIG and the FBI, and remains a fugitive.

IADE operated six campuses and a corporate headquarters in the Los Angeles area, and one campus in Florida. From 1989, until its failure in March of 1995, IADE received over $57,000,000 in Pell Grant funding.

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Ogalala Lakota College

Rapid City, South Dakota

JOHN A. BAD WOUND, accounting manager and vice president
ARLYNN E. KNUDSEN, JERRY DEAN GODFREY, MARGARET J. GODFREY, MARGARET MINKO-BAD WOUND

John A. Bad Wound, accounting manager and vice president for business affairs at Ogalala Lakota College, was charged with Arlynn E. Knudsen, Jerry Dean Godfrey, Margaret J. Godfrey and Margaret Minko-Bad Wound in a 125-count federal indictment in the Western District of South Dakota, Sioux Falls, South Dakota. The indictment charged the foregoing individuals with conspiracy, theft, obstruction, theft from a tribal organization, money laundering, transportation of stolen funds, and structuring.

A joint investigation by ED/OIG, the Interior Department/OIG, the Internal Revenue Service and the FBI developed evidence that from 1991 to 1994, a total of $2.6 million dollars in federal funds was embezzled from Oglala Lakota College, including ED funds (i.e., Pell Grant, College Work-Study, Supplemental Educational Opportunity Grant, Endowment Challenge Grant, College Library Technology & Cooperative Grant, Indian Education Special Programs & Projects, Training Personnel for the Education of Individuals with Disabilities, Library Literacy, and Student Support Services funds).

The United States Attorney's office, District of South Dakota, has filed a civil complaint seeking the forfeiture of a Black Hawk, South Dakota residence owned by Arlynn Knudsen. The property is valued at about $107,000 and was offered for sale for $205,000. The complaint alleges that the property was in part purchased with embezzled federal funds.

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Revell Training Center

Chicago and Melrose Park, Illinois

GEORGE C. TINDALL, owner
CARLETON LEWIS, operations manager

A federal grand jury returned a 15-count indictment against George C. Tindall, owner of Revell Training Center, and Carleton Lewis, the center's operations manager, alleging a scheme to defraud the Department of Education and banks of approximately $936,000. As the result of a plea agreement reached with the United States Attorney's office, Tindall has subsequently pled guilty to one count each of mail fraud and student financial aid fraud.

A joint investigation by ED/OIG and the Postal Inspection Service found evidence that from about July 1990 through April 1992, Tindall and Lewis participated in a scheme to defraud the U.S. Department of Education and two banks. According to the indictment, Tindall and Lewis caused guaranteed student loan (GSL) and Supplemental Loans for Students (SLS) checks to be issued for ineligible students, retained and negotiated the checks, and used the money

for improper purposes. Tindall and Lewis allegedly obtained GSL and SLS checks for students who never started the program or withdrew from the school prior to the receipt and negotiation of the checks, then failed to return GSL and SLS funds for those students. In addition, Tindall and Lewis allegedly instructed Revell employees not to complete GSL/SLS Notices of Guarantee and Disclosure Statements, which would have included information about the students' enrollment status showing that the students had never started classes or had dropped out of the program prior to the receipt of the checks.

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Interamerican Business College

Hato Rey, Arecibo and *Humacao, Puerto Rico*

CRISTINO BURGOS RODRIGUEZ, owner and principal officer

A federal grand jury in the District of Puerto Rico returned a six-felony-count indictment charging Cristino Burgos Rodriguez with two counts of false statements, three counts of wire fraud and one count of education fraud. A joint investigation by ED/OIG and the FBI resulted in the indictment, which charged Burgos Rodriguez with illegally obtaining in excess of $400,000 in Pell Grant funds on behalf of students who had withdrawn from or never attended classes at the Humacao Branch campus.

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Arizona Academy of Medical and Dental Assistants

Flagstaff, Arizona

DAVID SCHRADER, former owner
GERALDINE THOMPSON, former student financial aid director

A federal grand jury in Phoenix, Arizona, charged David Schrader, former owner of the Arizona Academy of Medical and Dental Assistants, and Geraldine Thompson, the academy's former student financial aid director, in a 32-count indictment. The indictment charged both Schrader and Thompson with conspiracy; Schrader was also charged with student aid fraud and wire fraud, and Thompson was charged with a false statement in the certification of a loan application.

A joint OIG/FBI investigation developed evidence that the defendants fraudulently obtained and improperly received more that $24,000 in Pell grants and loans for students at an ineligible campus and other ineligible students. The defendants also allegedly used invalid ability-to-benefit procedures.

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WKG-TV Video Electronics College

Baton Rouge, Louisiana

CHARLES RAYMOND COLEMAN, owner

Charles Raymond Coleman, owner of WKG-TV Video Electronics College, pled guilty to a two-count information charging him with misapplication of guaranteed student loan funds. A joint investigation by ED/OIG and the FBI found evidence that Coleman either deposited approximately $20,000 in student loan checks in his personal bank account or endorsed them over to a car dealership to purchase automobiles. At the time these checks were negotiated, approximately 19 of the school's students had already withdrawn and were owed a refund. No refunds were ever made.

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Jules Hairstylist, Inc., T/A Flair Beauty Institutes, Washington D.C. Beauty Academy and Annapolis Beauty Academy

Oxon Hill, Maryland

IRVING LAWRENCE BERNFELD, owner

Irving Lawrence Bernfeld, owner of several cosmetology schools in the District of Columbia, Virginia and Maryland, pled guilty in U.S. District Court, Richmond, Virginia, to one count of mail fraud in connection with a scheme to defraud the Pell Grant program. Bernfeld owned Jules Hairstylist, Inc., which operated at least five cosmetology schools in the mid-Atlantic area and had its primary offices in Oxon Hill, Maryland. Carol Sapp, an employee of the school, pled guilty to a one-count information charging her with mail fraud in connection with her role in the scheme.

A joint OIG/FBI investigation developed evidence that Bernfeld failed to refund Pell Grant funds to ED for approximately 40 students who had withdrawn from classes before completing the course of instruction. To conceal his actions, Bernfeld allegedly directed his employees to create false documents that overstated the students' attendance to make it appear that the school did not owe refunds to ED. Sapp, from her home in North Berwick, Maine, identified the students who were due a tuition refund, calculated how many additional hours needed to be added to the students' records in order to make it appear that either no refund or a smaller refund was due, and provided Bernfeld with this information. The estimated loss to ED is approximately $12,000. Sapp and Bernfeld are scheduled for sentencing in April and May 1997, respectively.

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IKWAI F.O.R.C.E.

Oklahoma City, Oklahoma

SHIRLEY BROWN, director

Shirley Brown was sentenced in U.S. District Court for the Western District of Oklahoma, Oklahoma City, Oklahoma, to 4 months incarceration, 120 days home detention and 3 years probation, and was ordered to pay $34,718 in restitution to ED after entering a plea of guilty to a one-count bill of information.

Brown was the director of IKWAI F.O.R.C.E., a Title VII and Indian Education project grantee in Oklahoma. Brown was charged with making unlawful ATM withdrawals totaling $34,718 from IKWAI's Bank-One Oklahoma federal account. A joint OIG/FBI investigation disclosed that in 1995, Brown had closed IKWAI F.O.R.C.E. without prior notice to its employees or ED. Shortly thereafter, Brown allegedly removed all equipment and records to an unknown location. Our investigation was initiated based on information from the Office of Bilingual Education and Minority Languages Affairs advising OIG that IKWAI F.O.R.C.E. had closed its doors in December 1994. The grantee's projects were not scheduled to be completed until June 30, 1995.

By January 9, 1995, IKWAI F.O.R.C.E. had withdrawn its entire allotment of funds for both projects. Of the funds withdrawn, $187,000 is either unaccounted for and/or unearned. Brown admitted that she made more than $34,718 in ATM cash withdrawals for her own personal use from IKWAI F.O.R.C.E.'s Bank-One Oklahoma City Federal account.

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Priscilla's Professional Services

Los Angeles, California

PRISCILLA ANN HAMILTON, *A.K.A.* PRISCILLA PINSON, owner
with DEBRA LORRAINE BRADFORD, VALERIE RENEE GREEN, LASHAWN RENEE LUTCHER,
JABALI ABAYOMI OLIVER and BEATRICE SCOTT

A dozen people were charged in Federal District Court, Central District of California, for their role in a massive tax-fraud and student-loan-fraud scheme that allegedly operated out of a Los Angeles storefront and caused at least $1 million in losses. Priscilla Ann Hamilton, the owner of Priscilla's Professional Services, is accused of orchestrating the two major fraud schemes.

An intensive multi-agency investigation uncovered evidence that Hamilton and others under her direction bribed a Social Security Administration employee in order to obtain Social Security numbers (SSNs). The SSNs were then used to complete tax returns and federal Parental Loans for Undergraduate Students (PLUS) applications. The scheme involved using the fraudulently obtained SSN's to complete and submit PLUS loan applications on behalf of individuals who were not attending the college.

The ring used the school codes from the University of Southern California, Grambling State University, the University of Houston, and many other well known universities, for the processing of student loans. Using the SSN's and school codes, the ring filed for about 29 PLUS loans. The loan proceeds were then mailed to Hamilton's place of business and other "drop boxes" throughout Los Angeles.

To date, six defendants have pled guilty to various charges for their role in the fraud scheme. Six others have been arrested and are pending trial.

★ Other Investigative Cases ★

Robert Elwin Goelz

APPRENTICESHIP TRAINING PROGRAM COORDINATOR

Atlantic Vocational Technical Center

Coconut Creek, Florida

Robert Elwin Goelz, former Apprenticeship Training Program coordinator and member of the Local Union 675 Operating Engineers, Broward County, Florida, pled guilty in the Southern District of Florida to two counts of theft or embezzlement from employment and training funds. The Apprenticeship Program, which is used to recruit union members, is run by the Local 675 and the Broward County School Board. The Department of Education provides federal monies to the school board, part of which cover the overhead costs of running the program. Continued funding of the program was based on the apprentices' maintaining adequate attendance.

Investigation disclosed several ghost students as well as additional students with excessive absences. Goelz falsified attendance records of apprentices to show them in attendance when they were in fact absent. Goelz engaged in the falsification in order to keep the program and his coordinator position funded. This case was worked jointly by ED/OIG and the U.S. Department of Labor.

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John Waldon, Jr.

FORMER DIRECTOR AND FINANCIAL AID OFFICER

Thomas Serra School of Hair Design

Philadelphia, Pennsylvania

John P. Waldon, Jr., pled guilty to one count of bank fraud and one count of criminal forfeiture after an OIG investigation found that he had completed a student loan application falsely certifying that he was a student. Waldon subsequently negotiated a $2,466 federal student loan by forging the school owner's endorsement on two loan disbursement checks. Waldon was sentenced to one day of incarceration and supervised probation, fined $200 and ordered to pay restitution totaling $2,376.

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Deborah Conrad

TREASURER AND FINANCIAL AID OFFICER

National Association of Veterans Programs Administrators

Clarkson College

Omaha, Nebraska

As the result of a joint FBI/OIG investigation, Deborah E. Conrad was indicted by a federal grand jury in the District of Nebraska, on five counts of mail fraud, interstate transportation of falsely made and forged securities, student loan fraud and wire fraud. According to the indictment, Conrad, while serving as treasurer of the National Association of Veterans Program Administrators (NAVPA), improperly spent approximately $72,000 in NAVPA funds on personal purchases. The indictment alleged that Conrad issued NAVPA checks bearing forged signatures and prepared falsified treasurer's reports that failed to disclose the improper expenditures. NAVPA receives its funding primarily from membership dues and revenue generated by various NAVPA workshops. The dues and workshop fees are paid primarily out of Veterans Education Outreach program funds provided to postsecondary institutions by ED.

The indictment also alleged that Conrad, while serving as the director of financial aid at Clarkson College in Omaha, Nebraska, and Iowa Western Community College in Council Bluffs, Iowa, fraudulently received approximately $25,000 in federally guaranteed student loan funds. The indictment alleged that, among other things, Conrad submitted falsified SFA applications misrepresenting her enrollment status and eligibility to receive student loan funds. Conrad has pled not guilty and is awaiting trial.

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Lamar S. Adams

Houston, Texas

Lamar S. Adams was indicted by the grand jury for the Southern District of Texas, Houston Division, Houston, Texas, on five counts of mail fraud, five counts of student loan fraud, and one count of wire fraud. The total value of the violations contained in the indictment is approximately $70,000. A joint OIG/FBI investigation developed evidence that, during the period from August 1992 through May 1995, Adams submitted seven fraudulent PLUS loan applications totaling approximately $120,000 to Texas Commerce Bank, Enterprise Bank (now Sterling Bank) and Houston National Bank, all in Houston, Texas. The fraudulent applications contained Adams's deceased fa-

ther's name and a false SSN in the spaces reserved for borrower information, and variations of Adams's name and SSN in the student spaces, as well as a falsified name of the school certifying official.

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Josephine Nkechi Egwuekweh

Los Angeles, California

Josephine Nkechi Egwuekweh pled guilty to one felony count each of grand theft and perjury at the Municipal Court of Los Angeles, County of Los Angeles, State of California. An OIG investigation developed evidence that from 1986 to 1992, Egwuekweh fraudulently obtained a total of $12,966 in federal student financial assistance (SFA) funds from three Los Angeles County colleges by using variations of her name and date of birth, and false SSNs.

Egwuekweh was previously charged in 1992 in a six-count felony indictment which charged her with three felony counts of perjury; two felony counts of obtaining money or property by false pretenses; and one count of grand theft. Following the 1992 indictment, Egwuekweh became a fugitive and fraudulently received approximately $7,000 in additional SFA funds by using different identities. This period, Egwuekweh was arrested by the California Highway Patrol on the outstanding 1992 warrant.

As a condition of the plea agreement, Egwuekweh will serve five years probation and 500 hours of community service; will make full restitution of all SFA funds; and is to never participate in any Title IV programs—under *any* name.

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Jacinta Ada Onuoha, *A.K.A.* Pamela E. Bowers

Memphis, Tennessee

Jacinta Ada (Joy) Onuoha, *a.k.a.* Pamela Bowers, was sentenced in Federal District Court, Western District of Tennessee, to six months of imprisonment and one year of supervised release and was ordered to pay $8,511 in restitution. The sentencing is a result of Onuoha's prior guilty plea to one count of fraudulent use of a Social Security number, one count of fraudulent statements in student aid applications, and one count of use of false and fraudulent identification documents. A joint ED-OIG/Immigration and Naturalization Service/Social Security Administration investigation was initiated based on information received from Memphis State Technical Institute that Bowers was attempting to enroll in the school and apply for financial aid using a false SSN. Subsequent investigation revealed that Bowers, using false information, had attended LeMoyne Owen College and Shelby State Community College. Bowers received financial aid totaling $8,511.

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Bettie Wesley

Little Rock, Arkansas

Bettie Wesley, a federal finance officer with the Arkansas State Department of Education, was sentenced to serve 12 months in prison with 3 years supervised probation and ordered to make restitution of $20,808 and pay a $100 fine. Wesley had earlier pled to an information in U.S. District Court, Eastern District of Arkansas, charging her with one count of embezzlement and misuse of public funds.

A joint ED-OIG/FBI investigation was initiated on the basis on information provided by the Arkansas Legislative Joint Auditors (ALJA). The ALJA did an audit which disclosed evidence that Wesley diverted, embezzled and/or misappropriated federal funds totaling $76,000. The investigation found evidence that Wesley deposited various

federal program funds into at least eight different suspect bank accounts during the period from September 1992 through May 1995. It was discovered that the suspect bank accounts belonged to the God's House of Deliverance (GHOD) and World Wide Services, Inc. Wesley is a member and past treasurer of GHOD.

To accomplish her scheme, Wesley submitted duplicate legitimate vendor invoices to the State of Arkansas Department of Education disbursing officer. After the checks were disbursed by the state, Wesley intercepted the checks and deposited those state checks, plus two federal treasury checks totaling more than $20,000, and various other misdirected checks into the suspect accounts.

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Paul Duell, EMPLOYEE

LOUISIANA DEPARTMENT OF EDUCATION
Proprietary Schools Bureau

Paul Duell pled guilty in the Western District of Louisiana, Lafayette, Louisiana, to a one-count criminal information charging extortion by a public official. A joint ED-OIG/FBI investigation developed evidence, through the use of electronic surveillance equipment, that in exchange for payment of $5000, Duell offered to perform the following services: a) furnish the purchasers of the Refrigeration School of New Orleans with a bogus $10,000 surety bond; b) assist in the preparation and approval of the purchasers' financial statement; c) assist in increasing the enrollment in the school; d) personally supervise the school on behalf of the state to prevent regulatory interference.

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Lisa M. Surratt, EMPLOYEE

U.S. Department of Education
Washington, DC

Former Office of Educational Research and Improvement secretary Lisa M. Surratt was sentenced in D.C. Superior Court for submitting fraudulent travel vouchers to the Department's imprest fund cashier. Investigation revealed that Surratt had submitted 39 fraudulent vouchers that resulted in a total disbursement to her of $2,778.50. Investigation found that Surratt had forged the names of current and former ED employees on the vouchers as well as the names of contract employees. Three separate imprest fund cashiers were involved in the processing of these vouchers.

In a plea-bargaining arrangement, Surratt pled guilty to the submission of five of these vouchers. As part of her sentencing she agreed to resign from the Department effective December 20, 1996; enroll in a court-supervised drug treatment program; repay the Department $2,598.50; and not seek further federal employment. Surratt was also placed on probation for one year.

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Shirley M. Dickerson, EMPLOYEE

U.S. Department of Education
Washington, DC

Shirley M. Dickerson, a former employee of ED's Office of Vocational and Adult Education, pled guilty to one misdemeanor count of theft in the District of Columbia, Superior Court. Pursuant to the plea agreement, Dickerson resigned from employment with ED, agreed to repay $998, and agreed not to seek re-employment with ED in the future. She is also prohibited from seeking other federal employment for two years.

An OIG investigation found evidence that Dickerson falsified her time-and-attendance records. Analysis of Dickerson's time-and-attendance records identified discrepancies between the amounts of leave recorded on the electronic time-and-attendance reports submitted to the Denver payroll office, and the amounts of leave indicated on the forms filed at the worksite. Dickerson altered the leave amounts submitted to Denver so that she would not be charged for 89 hours of leave taken. Dickerson confessed to submitting fraudulent records for three pay periods during FY 1996 resulting in the payment of federal monies for work not performed.

★ UPDATE on Previously Reported Cases ★

Chicago Institute of Technology

Chicago, Illinois

EARLE CIAGLIA, president and co-owner
EDWIN CIAGLIA, vice-president and co-owner
DONALD DESMOND, chief financial officer

Edwin Ciaglia, Earle Ciaglia and Donald Desmond, former owners and chief financial officer, respectively, of the Chicago Institute of Technology (CIT), were sentenced in federal court in the Northern District of Illinois. Earle Ciaglia and Edwin Ciaglia were each given sentences of 46 months incarceration and 3 years supervised probation and ordered to pay restitution of $10,000. Donald Desmond was given a sentence of 41 months incarceration and 3 years supervised probation and ordered to pay restitution of $5,000.

Last period the Ciaglias and Desmond pled guilty to bank fraud and conspiracy to commit bank fraud, SFA fraud, bankruptcy fraud and wire fraud stemming from a 25-count federal indictment filed in June 1996. The indictment charged that, from 1988 through 1991, the defendants were responsible for the systematic falsification of student academic and financial aid records to conceal their recruitment, training and retention deficiencies, their failure to make refunds, and their conversion of unearned federal funds which caused the loss of at least $720,000 to the government. They were also charged with obtaining bank loans in excess of $300,000 by submitting false and fraudulent loan applications and financial records, and with engaging in a check-kiting scheme by passing more than 200 bad checks with a face value over $10,000,000, causing a loss of approximately $500,000 to a Chicago bank. The loan and check-kiting schemes resulted in financial institutions suffering losses in excess of $825,000. The indictment also charged the individuals with having committed bankruptcy fraud by submitting fraudulent bankruptcy petitions and by selling pledged CIT assets prior to the filing of the bankruptcy. *(Semiannual Report No. 33,* page 16)

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Programming and Systems, Incorporated

Cleveland, Ohio

IRWIN MAUTNER, chairman and chief executive officer
RONALD SUNDICK, national financial aid director

Irwin Mautner, chairman and chief executive officer of Programming and Systems, Incorporated (PSI), pled guilty in Akron, Ohio, to a three-felony-count indictment that charged him with mail fraud, conspiracy and making a false statement to the U.S. Department of Education. Ronald Sundick, corporate national financial aid director of PSI, as part of a plea agreement with the government, pled guilty to a one-felony count information that charged him

with obstruction of a federal audit. On January 31, 1997, the corporation, PSI, pled guilty to one felony count of mail fraud.

These guilty pleas and plea agreements resulted from a three-count indictment that charged the defendants with engaging in a scheme to defraud the Department of Education by concealing from PSI's accrediting agency and other regulatory bodies the high rate of student withdrawals at PSI schools. The indictment alleged that the defendants engaged in this scheme to prevent the PSI schools from losing their accreditation and consequently, the schools' eligibility to receive Pell grants and federally insured loans. The scheme included the use of improper recruiting practices, ability-to-benefit testing irregularities, concealment of documents from oversight bodies, and submission of false reports. During the time period charged in the indictment, the schools received in excess of $140 million of Title IV funds. PSI was a publicly traded corporation that owned and operated proprietary schools in Ohio, New York, Michigan, Indiana, Florida, North Carolina, Pennsylvania, Maryland and Washington, D.C. *(Semiannual Report No. 33,* p. 17)

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California Institute

Long Beach, California

RONALD VAN AVERY, owner

Ronald Van Avery, owner and operator of California Institute (CI), was found guilty by a federal jury in Los Angeles, California, of five counts of wire fraud and two counts of false statements arising from a scheme that defrauded the Department of Education of at least $6.3 million. Avery retained guaranteed student loans that were required to be returned to commercial lenders because the students had not completed their courses of study at CI. Avery misstated CI's financial status and performance by causing the preparation of false financial statements that either wholly omitted the refund liabilities or drastically understated them. Avery fraudulently retained CI's eligibility with the Department by making false statements to accreditation commissions, guaranty agencies and CPAs.

According to evidence presented at the trial, Avery recruited students from such locations as homeless shelters, unemployment offices and public housing projects, then retained the proceeds of the student aid for which they invariably applied. When students dropped out, Avery kept the loan proceeds which he was required by law to refund. During trial, nine former students testified that Avery's actions denied them access to further student aid, tarnished their credit histories, and caused extreme financial hardship. Avery used the millions of dollars to maintain an expensive and luxurious lifestyle, purchasing and improving several parcels of real property, purchasing luxury cars, expensive jewelry, vacations, clothing, and other personal items, and making significant investments. *(Semiannual Report No. 30, page 27)*

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Northeast Institute of Education

Scranton, Pennsylvania

GREGORY WALKER, former chief executive officer

Gregory Walker, former chief executive officer of Northeast Institute of Education (NIE), was sentenced in U.S. District Court, Scranton, Pennsylvania, to 30 months incarceration on each of three felony counts: fraud involving federal education programs, theft concerning programs receiving federal funds, and bank fraud. The bank-fraud conviction was not directly related to Walker's operation of NIE. The sentences are to run concurrently. Following release, Walker will be under supervised probation for five years.

A joint OIG/FBI investigation determined that Walker and others made false representations to the Department of Education to enable NIE to become reinstated in the federal SFA programs. That reinstatement followed NIE's

termination by the Department for failing to fulfill the terms of a settlement agreement with ED. The Department permitted NIE's reinstatement on the condition that Walker would no longer be involved with the school's fiscal and financial affairs.

Investigators determined that Walker never relinquished control of NIE, continuing to sign checks, approve refunds and exercise substantial control over the fiscal and financial affairs of the school. As a result of the misrepresentations to the Department, NIE continued to receive SFA funds from March 1994 until March 1996, and in fact received $574,000 of Title IV funds during this period. Walker pled guilty to obtaining these SFA funds by fraud. The defendant also pled guilty to misapplying refunds for students who had withdrawn or graduated from the school. Acknowledging Walker's inability to pay full restitution, the sentencing judge ordered a $30,200 payment on the bank fraud count, and a $150 special assessment. *(Semiannual Report No. 33,* page 17)

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Valerie Carr

SAWYER COLLEGE

Hammond, Indiana

Valerie Carr, an employee at Sawyer College, Hammond, Indiana, was sentenced to 18 months of incarceration and ordered to pay restitution of $468,770 after being found guilty of one count of embezzlement of student financial aid funds. The embezzled funds included guarantee student loans totaling $143,460, Pell grants totaling $115,116 and Perkins loans totaling $34,119. The remaining funds included State of Indiana aid, personal checks, cash, private employer payments and private scholarships.

Carr, an administrative assistant at Sawyer College, was responsible for processing incoming students, ordering books for the college, receiving and depositing college funds (including student aid checks) into the school's operation account, and maintaining the books and records. Our investigation determined that for approximately two years Carr, without authorizations from the school, cashed checks payable to Sawyer College, including student aid checks, and kept the cash for her own use. *(Semiannual Report No. 33, page 19)*

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Lauren Beauty College

Cuyahoga, Ohio

STEPHANIE SMIGELSKI, former president/owner

Stephanie Smigelski was sentenced in the Cuyahoga County Court of Common Pleas, Cleveland, Ohio, to 90 days probation and ordered to pay restitution of $21,000. An OIG investigation determined that Smigelski received Pell Grant funds for students who dropped out of school and had not earned the required hours to qualify for a second Pell Grant disbursement. Smigelski hired a financial aid servicer to handle most of the school's financial aid activities. Smigelski was responsible for reporting the hours completed by the students to the servicer before any disbursements were made. Examination of the school's attendance records and the hours reported to the Ohio State Board of Cosmetology determined that Smigelski reported inflated hours to the servicer for students who dropped out of school. The OIG identified 20 students who had not completed the required number of hours necessary to receive the second Pell Grant disbursement which the defendant obtained on their behalf. *(Semiannual Report No. 33,* page 27, and *Semiannual Report No. 32,* page 17)

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Elissa R. Kurland

Fort Myers, Florida

Elissa R. Kurland, attorney and former treasurer of the Florida Future Business Leaders of America (FBLA)/Phi Beta Lamda Association and Foundation, Inc., was sentenced in U.S. District Court for the Southern District of Florida to 18 months incarceration, followed by a supervised probation period of 3 years. Kurland was also ordered to immediately start making full restitution of the balance owed to FBLA for $69,176.

The OIG investigation disclosed that Kurland embezzled a total of $110,637 from FBLA through a scheme of altering payee names on FBLA checks to pay for personal expenses (i.e, travel to a beauty parlor in New York and the purchase of jewelry). In some instances, Kurland deposited the checks into her personal account. As the treasurer for FBLA, Kurland had access to all the foundation's bank accounts, and she performed monthly reconciliations. FBLA receives funding from ED through the Carl D. Perkins Vocational Act.

As a result of her conviction, Kurland surrendered her license to practice law in the state of Florida. A referral for disbarment will be made to the Florida Board of Accountancy. This was a joint investigation by ED/OIG, IRS and the Florida Department of Law Enforcement.

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Pat Goins of Bossier, Inc.

Shreveport, Louisiana

Pat Goins of Bossier, Inc. (PGB), Shreveport, Louisiana, was sentenced in U.S. District Court, Western District of Louisiana, to three years probation, fined $210,000 with $200,000 suspended and ordered to pay restitution of $30,094 and a $200 special assessment fee.

Our investigation disclosed that Pat Goins directed or caused PGB officials to alter, or to make false statements relative to, students' dependency status, income and/or ability-to-benefit status. We also found that eight students were coached by a PGB employee who provided the ability-to-benefit test answers prior to the independent tester giving the test. Five students, after prompting from a PGB employee, provided false information regarding marital status or dependency status, resulting in a lower calculation of annual income and increasing the amount of student financial aid funds they were eligible to receive. (*Semiannual Report No. 33*, page 18)

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United Academies of Cosmetology

Chicago, Illinois

Five former employees of the United Academies of Cosmetology schools pled guilty in U.S. District Court, Northern District of Illinois. Each former employee admitted to participating in a scheme to defraud the government by falsifying school records and forging signatures of "students" at the schools. Their sentencings were postponed until after the upcoming trial of the owners and general manager.

Rosa Mercado, former financial aid assistant at Riviera Beauty School, and Gwendolyn Kirk, Myron Petty, Theresa Dobyne and Brad Jones, former admissions recruiters at Riviera Beauty School, each pled guilty to one count of SFA fraud, part of an earlier 54-count indictment involving Mid-America Beauty School and Riviera Beauty School. (*Semiannual Report No. 33*, page 19)

Abstract 3

INITIATIVES CONDUCTED IN RESPONSE TO CONGRESSIONAL REQUEST

(October 1, 1996 - March 31, 1997)

Reauthorization of the Individuals with Disabilities Education Act

February 4, 1997

At the request of the House Subcommittee on Early Childhood, Youth and Families, Committee on Education and the Workforce, the Inspector General provided testimony regarding our audit of the funding formula for special education. During the hearing, the Inspector General stressed OIG's recommendation to change the current use of child counts for allocating federal funds to states under the Individuals with Disabilities Education Act (IDEA), Part B, Section 611, to a system based on objective data--namely, population weighted for poverty levels. It is our contention that this proposal is a fairer, simpler, and less burdensome method of allocating special education funds.

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Department of Education Management and Programmatic Issues

March 20, 1997

The Inspector General testified before the House Subcommittee on Human Resources, Committee on Government Reform and Oversight, regarding management and programmatic issues at the Department of Education and areas of fraud, waste and abuse identified in the Department's programs and operations. Focusing on the student financial assistance programs, the Inspector General told the subcommittee that one of the most significant problems facing the Department was the lack of adequate management information and delivery systems. The systems are not integrated, do not share a common systems architecture, and do not provide the timely, accurate and complete data needed to manage effectively the SFA programs and a total grant and loan portfolio of over $120 billion.

The Inspector General further told the Subcommittee that the problems in the SFA programs have stemmed from the basic structural design of the programs and the lack of specificity in the authorizing statute; poor design and operations of the delivery systems; and inadequate gatekeeping, monitoring and oversight of program participants. The Inspector General also highlighted his June 1996 testimony before this same Subcommittee, stressing the need for measurable performance standards. OIG audits and investigations of non-degree-granting, vocational trade schools have long demonstrated the inadequacy of accrediting agencies to assure the quality of training at those schools that participate in the SFA programs. The Inspector General once again stressed the need for Congress to legislate numerical, absolute and verifiable standards which these schools would have to meet in order to be eligible to participate in the SFA programs.

Finally, the Inspector General addressed areas of fraud, waste and abuse, including recommendations to match income reported on applications for financial assistance to adjusted gross income reported to the Internal Revenue Service; develop an outcome based method of compensation for lenders to avoid due diligence fraud; and require school owners to report and certify their refund liabilities on at least an annual basis so that the Department can identify schools that are delinquent and the extent of the liabilities.

RECOMMENDATIONS DESCRIBED IN PREVIOUS *SEMIANNUAL REPORTS* ON WHICH CORRECTIVE ACTION HAS NOT BEEN COMPLETED

Section 5(a)(3) of the Inspector General Act requires a listing of each report resolved before the commencement of the reporting period for which management has not completed corrective action. The reports listed below are OIG internal and nationwide audit reports and management improvement reports.

REPORT NUMBER	AUDITEE/TITLE	DATE RESOLVED	TOTAL MONETARY FINDINGS	SEMIANNUAL REPORT NO.	PAGE
OFFICE OF ELEMENTARY AND SECONDARY EDUCATION					
11-20202	*CHANGES TO IMPACT AID PROGRAMS' SITE REVIEW PROCESS SHOULD IMPROVE EFFICIENCY AND ASSURE BETTER USE OF PROGRAM FUNDS*	*09/30/94*	*4,382,000*	*26*	*85*
OFFICE OF POSTSECONDARY EDUCATION					
11-90050	*ACCREDITING AGENCY RECOGNITION PROCESS DOES NOT SERVE AS AN EFFECTIVE CONTROL IN DETERMINING THE RELIABILITY OF AGENCIES THAT ACCREDIT NUMEROUS PROBLEM SCHOOLS*	*06/30/91*	•	*22*	*5*
*93-02***	*ED SHOULD PROHIBIT CONFLICTS OF INTEREST BETWEEN GUARANTY AGENCIES AND AFFILIATED ORGANIZATIONS*	*06/30/93*	•	*26*	*86*
11-00010	*OFFICE OF STUDENT FINANCIAL ASSISTANCE DID NOT ASSURE THAT ALL INSTITUTIONS SUBMITTED AUDIT REPORTS OR THAT IT RECOVERED ALL MISSPENT FUNDS*	*09/30/93*	*33,800,000*	*24*	*63*
11-90040	*THE INSTITUTIONAL ELIGIBILITY PROCESS DOES NOT PROVIDE ADEQUATE ASSURANCE THAT ONLY ELIGIBLE SCHOOLS PARTICIPATE IN THE TITLE IV PROGRAMS*	*09/30/93*	*482,000*	*22*	*6*
*92-05***	*ED NEEDS TO STRENGTHEN STUDENT LOAN CURE PROCEDURES*	*09/30/93*	*154,000,000*	*24*	*12*
*92-10***	*STRICTER STANDARDS NEEDED FOR GRANTING OF FORBEARANCES*	*09/30/93*	•	*25*	*3*
*92-13***	*ED NEEDS TO CHANGE THE LEGISLATIVE DEFINITION OF LOANS IN REPAYMENT*	*01/31/94*	•	*25*	*5*
*93-07***	*THE SECRETARY'S DEFAULT REDUCTION INITIATIVE—AN ALTERNATIVE APPROACH TO IMPLEMENTING SANCTIONS*	*03/31/94*	•	*27*	*18*
05-20175	*EFFECTIVENESS OF THE REGIONAL INSTITUTIONAL REVIEW BRANCHES' MONITORING OF INSTITUTIONS PARTICIPATING IN THE STUDENT FINANCIAL ASSISTANCE PROGRAMS*	*08/31/94*	•	*28*	*19*
17-30302	*FINANCIAL AUDIT: FEDERAL FAMILY EDUCATION LOAN PROGRAM'S FINANCIAL STATEMENTS FOR FISCAL YEARS 1993 AND 1992*	*10/31/94*	•	*29*	*16*
11-30001	*INCONSISTENT INSTITUTIONAL PELL GRANT REPORTING RESULTS IN SIGNIFICANT EXPENDITURE DISCREPANCIES*	*07/31/95*	•	*29*	*15*
04-40100	*HELPING TO ASSURE EQUALIZED EDUCATIONAL OPPORTUNITIES WITH HEA, TITLE III INSTITUTIONAL AID FUNDS—GLOBAL PERFORMANCE MEASURES NEEDED*	*08/31/95*	•	*31*	*11*
17-30305	*ANNUAL INTEREST GRANTS: IMPROVING THE PROCESS FOR PAYING THE REMAINING GRANTS*	*02/29/96*	*5,025,272*	*31*	*14*
11-40001	*FOLLOW-UP REVIEW ON SELECTED GATEKEEPING OPERATIONS*	*02/29/96*	•	*31*	*13*
05-40005	*ED NEEDS TO CONSIDER IMPLEMENTING CHANGES FOR MONITORING LENDERS AND SERVICERS*	*03/31/96*	•	*32*	*10*
05-50008	*EFFECTIVENESS AND EFFICIENCY OF DEBT COLLECTION SERVICE—AREAS RELATED TO INTERNAL OPERATIONS*	*04/30/96*	•	*32*	*12*
04-38000	*LESSONS LEARNED FROM RTC'S HANDLING OF FEDERAL FAMILY EDUCATION LOANS ...*	*08/31/96*	•	*32*	*9*
04-60001	*PROCESS ENHANCEMENTS IN THE HEA, TITLE III, INSTITUTIONAL AID PROGRAM WOULD INCREASE PROGRAM EFFICIENCY, DESPITE LIMITED RESOURCES*	*08/31/96*	•	*32*	*9*
06-30004	*MANAGING FOR RESULTS: REVIEW OF PERFORMANCE-BASED SYSTEMS AT SELECTED ACCREDITING AGENCIES*	*08/31/96*	•	*31*	*7*
07-48051	*CLOSED SCHOOLS: $2.4 BILLION UNAUDITED*	*06/30/96*	•	*31*	*13*

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REPORT NUMBER	AUDITEE/TITLE	DATE RESOLVED	TOTAL MONETARY FINDINGS	SEMIANNUAL REPORT NO.	PAGE
OFFICE OF THE CHIEF FINANCIAL OFFICER					
11-00333	GREATER EMPHASIS NEEDED TO DEOBLIGATE UNEXPENDED CONTRACT FUNDS AND CLOSE OUT CONTRACTS ON TIME	03/31/94	7,500,000	26	17
11-48302	THE DEPARTMENT COULD REDUCE ITS AIR FARE TRAVEL COSTS IF MORE TRAVELERS TOOK ADVANTAGE OF DISCOUNT AIR FARES	01/31/96	*	31	33
17-40302	FINANCIAL STATEMENT AUDIT: U.S. DEPARTMENT OF EDUCATION FEDERAL FAMILY EDUCATION LOAN PROGRAM FOR THE YEARS ENDED SEPTEMBER 30, 1994 AND 1993	08/31/95	*	31	12
17-48320	FINANCIAL STATEMENT AUDIT OF THE U.S. DEPARTMENT OF EDUCATION WILLIAM D. FORD FEDERAL DIRECT LOAN PROGRAM	09/30/95	*	30	20

* Non monetary findings only

** Management improvement report

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ED/OIG Reports on Education Department Programs and Activities

(October 1, 1996 - March 31, 1997)

Section 5(a)(6) of the Inspector General Act requires a listing of each report completed by OIG during the reporting period. A total of 28 reports were completed by ED/OIG auditors. These reports are listed below.

ACN	AUDITEE REPORT TITLE	STATE	ISSUED	QUESTIONED COSTS (excluding unsupported)	UNSUPPORTED COSTS	BETTER USE OF FUNDS
OFFICE OF POSTSECONDARY EDUCATION						
[illegible]	ROXBURY COMMUNITY COLLEGE DISBURSED $2.2 MILLION TO STUDENTS ENROLLED IN AN INELIGIBLE ESGLISH AS A SECOND LANGUAGE PROGRAM	MA	OCT 96	$2,253,564		
[illegible]	RADCLIFFE COLLEGE'S ADMINISTRATION OF THE FEDERAL DIRECT LOAN PROGRAM NEEDS MINOR IMPROVEMENTS	MA	NOV 96	*		
[illegible]	AUDIT OF THE DIRECT LOAN PROGRAM ADMINISTERED BY THE BURDETT SCHOOL	MA	MAR 97			
[illegible]	AUDIT OF THE DIRECT LOAN PROGRAM ADMINISTERED BY FITCHBURG STATE COLLEGE	MA	FEB 97	*		
[illegible]	AUDIT OF THE DIRECT LOAN PROGRAM ADMINISTERED BY THE PHILADELPHIA COLLEGE OF PHARMACY & SCIENCE	PA	OCT 96	*		
03 60010	AUDIT OF THE DIRECT LOAN PROGRAM ADMINISTERED BY CHI INSTITUTE	PA	NOV 96	*		
03 60020	AUDIT OF THE DIRECT LOAN PROGRAM ADMINISTERED BY KEAN COLLEGE	NJ	MAR 97	*		
03 60022	CLOSE-OUT AUDIT OF THE DELAWARE HIGHER EDUCATION LOAN PROGRAM	DE	FEB 97	304,415		
04 60147	REVIEW OF SELECTED ASPECTS OF THE KENTUCKY HIGHER EDUCATION ASSISTANCE AUTHORITY'S ADMINISTRATION OF THE FEDERAL FAMILY EDUCATION LOAN PROGRAM	KY	FEB 97	1,261,251		
[illegible]	AUDIT OF THE DIRECT LOAN PROGRAM ADMINISTERED BY UNIVERSITY OF ALABAMA - BIRMINGHAM	AL	JAN 97	*		
05 40001	CLOSE OUT AUDIT OF THE CHICAGO INSTITUTE OF TECHNOLOGY	IL	OCT 96	3,807,519	6,271,980	
05 60013	AUDIT OF ADMINISTRATION OF THE WILLIAM D. FORD FEDERAL DIRECT LOAN PROGRAM FOR EARLHAM COLLEGE	IN	OCT 96	*		
[illegible]	JOLIET JUNIOR COLLEGE'S ADMINISTRATION OF THE WILLIAM D. FORD FEDERAL DIRECT LOAN PROGRAM	IL	JAN 97	*		
06 50001	REVIEW OF ACCREDITING AGECNIES' MONITORING OF MEMBER INSTITUTIONS	DC	FEB 97	*		
06 50013	AUDIT OF SELECTED ASPECTS OF THE TITLE IV PROGRAMS ADMINISTERED BY THE HOUSTON COMMUNITY COLLEGE SYSTEM DURING JULY 1, 1992 THROUGH JUNE 30, 1995	TX	NOV 96	218,153		
[illegible]	AUDIT OF THE DIRECT LOAN PROGRAM ADMINISTERED BY THE COURT REPORTING INSTITUTE OF DALLAS	TX	JAN 97	*		
[illegible]	AUDIT OF THE DIRECT LOAN PROGRAM ADMINISTERED BY THE UNIVERSITY OF TEXAS MEDICAL BRANCH - GALVESTON	TX	FEB 97	*		
07 60005	TOPEKA TECHNICAL COLLEGE	KS	MAR 97	*		
09 50011	THE CALIFORNIA STUDENT AID COMMISSION SHOULD RETURN ABOUT $5 MILLION THAT IT OVERCHARGED TO THE GUARANTY LOAN RESERVE FUND	CA	DEC 96	4,965,913		
[illegible]	AUDIT OF THE DIRECT LOAN PROGRAM ADMINISTERED BY THE ACADEMY OF ART COLLEGE, SAN FRANCISCO, CALIFORNIA	CA	DEC 96	*		

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ACN	AUDIT/REPORT TITLE	STATE	ISSUED	QUESTIONED COSTS (excluding unsupported)	UNSUPPORTED COSTS	BETTER USE OF FUNDS
OFFICE OF POSTSECONDARY EDUCATION (cont.)						
11-50001	ACCURACY OF STUDENT AID AWARDS CAN BE IMPROVED BY OBTAINING INCOME DATA FROM THE INTERNAL REVENUE SERVICE	DC	JAN 97			[illegible]
17-60004	AUDIT OF THE DIRECT LOAN PROGRAM ADMINISTERED BY MARYMOUNT UNIVERSITY	DC	DEC 96	*		
OFFICE OF SPECIAL EDUCATION AND REHABILITATIVE SERVICES						
01-60251	THE FOUNDATION FOR CHILDREN WITH AIDS	MA	MAR 97	*		
03-50201	COORDINATION AND COLLABORATION WITHIN OSERS TO BETTER SERVE CUSTOMERS AND MANAGE PROGRAMS	DC	MAR 97	*		
07-60002	MISSOURI DIVISION OF VOCATIONAL REHABILITATION SUCCESSFULLY ADMINISTERING TRAINING SERVICES	MO	DEC 96	*		
OFFICE OF THE CHIEF FINANCIAL OFFICER						
05-60005	AUDIT OF THE TALENT SEARCH PROGRAM AT THE COMMUNITY AND ECONOMIC DEVELOPMENT ASSOCIATION OF COOK COUNTY, INC IN CHICAGO, ILLINOIS	IL	NOV 96	130,601		
06-50005	RESULT OF CONTRACT CLOSE OUT AUDIT, ARKANSAS DEPARTMENT OF EDUCATION	AR	FEB 97		17,301	
OFFICE OF EDUCATIONAL RESEARCH AND IMPROVEMENT						
01-60009	REVIEW OF THE COOPERATIVE AGREEMENT FOR THE NATIONAL CENTER FOR ADULT LITERACY AWARDED TO THE UNIVERSITY OF PENNSYLVANIA FOR THE PERIOD NOVEMBER 1, 1992 THROUGH MARCH 31, 1996	PA	JAN 97	*		

* Non-monetary findings only

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INSPECTOR GENERAL ISSUED REPORTS WITH QUESTIONED COSTS[1]

	NUMBER	QUESTIONED	UNSUPPORTED[2]
A. For which no management decision has been made by the commencement of the reporting period (as adjusted)	64	$ 497,915,715	$ 30,407,101
B. Which were issued during the reporting period	8	19,232,876	6,289,201
Subtotals (A + B)	72	$ 517,148,591	$ 36,696,302
C. For which a management decision was made during the reporting period	24	$ 192,880,381	$ 6,016,331
(i) Dollar value of disallowed costs		$ 88,872,328	$ 64,027
(ii) Dollar value of costs not disallowed		$ 104,008	$ 5,952,304
D. For which no management decision has been made by the end of the reporting period	48	$ 324,268,210	$ 30,679,971
E. For which no management decision was made within six months of issuance	40	$ 273,892,616	$ 20,627,472

[1] Some of the audits reported in this table was performed by the Defense Contract Audit Agency.

[2] Included in questioned costs.

INSPECTOR GENERAL ISSUED REPORTS WITH RECOMMENDATIONS FOR BETTER USE OF FUNDS[1]

	NUMBER	DOLLAR VALUE
A. For which no management decision has been made by the commencement of the reporting period (as adjusted)	11	$ 49,003,000
B. Which were issued during the reporting period	1	109,000,000
Subtotals (A + B)	12	$ 158,003,000
C. For which a management decision was made during the reporting period	5	$ 13,798,000
(i) Dollar value of recommendations that were agreed to by management		$ —
(ii) Dollar value of recommendations that were not agreed to by management		$ 13,798,000
D. For which no management decision has been made by the end of the reporting period	7	$ 144,205,000
E. For which no management decision was made within six months of issuance	6	$ 35,205,000

[1] *None of the audits reported in this table was performed by the Defense Contract Audit Agency.*

Unresolved Reports Issued Prior to October 1, 1996

Section 5(a)(10) of the Inspector General Act requires a listing of each report issued before the commencement of the reporting period for which no management decision has been made by the end of the reporting period.

[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Notes

[1] [illegible]

[2] [illegible]

[illegible] [illegible]

- [illegible]
- [illegible]
- [illegible]
- [illegible]
- [illegible]

STATISTICAL SUMMARY

October 1, 1996 – March 31, 1997

OIG AUDIT REPORTS ISSUED 28
- Questioned Costs $12,943,675
- Unsupported Costs $6,289,201
- Recommendations for Better Use of Funds $109,000,000

OIG AUDIT REPORTS RESOLVED BY PROGRAM MANAGERS 22
- Questioned Costs Sustained $88,656,472
- Unsupported Costs Sustained $9,200
- Additional Disallowances Identified by Program Managers . . . . . —
- Management Commitment to Better Use of Funds . . . . . —

NON-FEDERAL AUDIT REPORTS RESOLVED BY PROGRAM MANAGERS 14
- Questioned Costs Sustained $151,629
- Unsupported Costs Sustained $54,827
- Additional Disallowances Identified by Program Managers $30,541

INVESTIGATIVE CASE ACTIVITY
- Cases Opened 83
- Cases Closed 74
- Cases Active at End of Period 305
- Cases Referred for Prosecution 42
  - Accepted 36
  - Declined 6

INVESTIGATION RESULTS
- Indictments/Informations[1] 45
- Convictions/Pleas[2] 43
- Fines Ordered $10,800
- Restitutions Ordered[3] $1,268,490
- Restitution Payments Collected[4] $1,782,412
- Civil Settlements $166,587
- Seizures $205,000

DEBARMENT/SUSPENSION ACTIVITIES
- OIG Requests for Departmental Action 15
- Individuals/Entities Debarred/Suspended 6

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[1] *Includes 5 actions that were not reported in our last* Semiannual Report.

[2] *Includes 6 actions that were not reported in our last* Semiannual Report.

[3] *Includes $521,127 not reported in our last* Semiannual Report.

[4] *Collected by the Department of Justice.*

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GLOSSARY OF ABBREVIATIONS

ACN	audit control number
ATB	ability-to-benefit
CAROI	Cooperative Audit Resolution and Oversight Initiative
CFO	Chief Financial Officer
DOJ	Department of Justice
ED	U.S. Department of Education
EDCAPS	Education Department Central Automated Processing System
ESEA	Elementary and Secondary Education Act
FAFSA	Free Application for Student Aid
FBI	Federal Bureau of Investigation
FFELP	Federal Family Education Loan program
FY	fiscal year
GMRA	Government Management Reform Act
GPRA	Government Performance and Results Act
IDEA	Individuals with Disabilities Education Act
OIG	Office of Inspector General
OMB	Office of Management and Budget

GLOSSARY OF ABBREVIATIONS
(continued)

OPE	Office of Postsecondary Education
SFA	student financial assistance/student aid
ST	state
VA	Department of Veterans Affairs

PLEASE SEND ME
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___ACN 01-60007	___ACN 05-40001	___ACN 07-60008
___ACN 01-60251	___ACN 05-60005	___ACN 09-60003
___ACN 03-50201	___ACN 05-60013	___ACN 09-60006
___ACN 03-60006	___ACN 05-60018	___ACN 11-50001
___ACN 03-60008	___ACN 06-50001	___ACN 17-60004
___ACN 03-60010	___ACN 06-50005	
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